



Agenda Item 7

June 11, 2012

ITEM NAME: Targeted Investment Programs Update

PROGRAM: Targeted Investment Programs

ITEM TYPE: Program Review – Information

EXECUTIVE SUMMARY

This agenda item, along with the presentation slide deck (Attachment 1) provides a status report on Targeted Investment Programs (TIP) activities to-date¹.

Specific accomplishments include:

- TIP roles and goals are established
- TIP, along with Real Assets and External Affairs, successfully planned, developed and conducted four infrastructure investment roundtables throughout the state from March through May, 2012
- **CalPERS for California** report was released
- **California Initiatives** report was released
- Work is launched for CalPERS “Five-Year Plan for Emerging Manager Participation”, as required by SB 294
- Leadership of Real Assets sustainability efforts including Greenprint membership and Co-Chair of UN Environmental Program Finance Initiative Property Working Group.

BACKGROUND

The Targeted Investment Programs Unit was formally established in January 2012. This agenda item is the first in a continuing series of semi-annual program updates to the Investment Committee. This update will include activities regarding:

1. The role and objectives of Targeted Investment Programs;
2. California investment activities;
3. Emerging manager and diversity & inclusion initiatives; and
4. Real Assets sustainability initiatives

¹ Staff will provide updates on Labor relations/RCP Policy and California/Urban real estate portfolio at the December Investment Committee meeting.

ANALYSIS

1. The Role and Objectives of the Targeted Investment Programs

The Targeted Investment Programs Unit was created to provide comprehensive and centralized Total Fund coordination and reporting of various initiatives and programs that cross asset classes and require coordination across multiple stakeholder groups. These include:

- California investment initiatives
- Emerging manager programs and strategies
- Diversity and inclusion strategies, and
- Labor relations/responsible contracting

The Targeted Investment Programs' responsibilities also include Real Asset Unit initiatives including:

- Sustainability/Environmental, social, and governance (ESG) integration
- Portfolio management of California and Urban real estate investments

The Targeted Investment Programs Unit reports to Real Assets Senior Investment Officer Ted Eliopoulos and to Chief Operating Investment Officer Janine Guillot for Total Fund initiatives.

California Investment Activities

Infrastructure Outreach Effort. In September 2011, the Investment Committee directed staff, among other things, to target investment of up to \$800 million in California infrastructure over a three year period; and to develop a plan for outreach to state and local governments to explore possible roles that CalPERS and other pension systems could play to facilitate infrastructure investment in California. The infrastructure investment Outreach Plan included two key elements: 1) a coordination and policy process, and 2) an investment pipeline enhancement process.

For the coordination and policy process, staff's activities included conducting four roundtable discussions across the state from March through May, 2012². The date, location, and topic of each Roundtable event are listed in the table below.

² This agenda item material was finalized prior to the fourth Roundtable. Staff will provide verbal update as needed during the June Investment Committee meeting. A complete Outreach Effort report will be presented in August 2012.

Date and Location	Topic
March 5, 2012, Sacramento	Overcoming Impediments to Pension Fund Investment in Infrastructure
April 5, 2012, San Francisco	Transportation Infrastructure
April 23, 2012, Los Angeles	Water Infrastructure
May 24, 2012, San Diego	Energy Infrastructure

Investment Office staff worked closely with CalPERS External Affairs and the Board's Consultant for Infrastructure, Meketa Investment Group, in developing the agenda and identifying participants for each Roundtable. The first Roundtable was moderated by David Altshuler of Meketa; the second was moderated by Richard G. Little, the Director of the Keston Institute for Public Finance and Infrastructure; and the third and fourth Roundtables were moderated by prior CalPERS Board Member, and current UC Merced professor, Tony Oliveira.

The Roundtables were well attended and provided an open and robust forum to discuss the challenges and successes in infrastructure funding. The Roundtables also provided a means for educating state, local and regional infrastructure professionals about the CalPERS Infrastructure Program.

The following are preliminary findings from the Infrastructure Roundtables.

Impediments identified to pension investment in infrastructure include:

- Availability of lower cost tax-exempt financing
- Difficulty in identifying new revenue sources
- Potential public resistance to new/increased user pay
- Sensitivities regarding ownership/control of assets
- Outcomes of prior public private partnerships a cause for concern by public, labor and investors
- Public sector agencies are generally not considering alternate financing models

Opportunities identified for pension investment in infrastructure include:

- \$200-\$500 billion unmet need for infrastructure finance in California
- Potential for investment in assets that currently exist that meet CalPERS investment parameters where ownership and control remain in public hands
- Ongoing communication and exchange of information between public sector agencies and private capital
- Organized labor is largely supportive and positively engaged in the process

In addition to the Roundtable discussions, staff held a series of meetings with stakeholders and other organizations, including but not limited to, legislative leaders; the California Council of Governments; federal, state, and regional public agency staff; Treasurers' offices across the country; chambers of commerce; labor organizations; the Tri-state Infrastructure Working Group; the Port of Long Beach; the Urban Land Institute, the Clinton Global Initiative and the Center for American Progress. These meetings provided the opportunity for staff to present information on CalPERS infrastructure efforts; and better understand the goals of the many stakeholders engaged in policy, finance, and procurement of infrastructure assets.

Infrastructure Program staff have met with state and local agency staff, investment advisors, private sector companies, academic experts and others for one-on-one conversations regarding investment opportunities. These conversations have resulted in the development of the investment pipeline.

Next steps in the outreach process include:

- Coordinate follow-on conversations with interested groups.
- Consider conducting additional outreach discussions later in the year on energy efficiency retrofit financing and redevelopment financing.
- Present final Infrastructure Outreach report to the Investment Committee in August 2012.

2011 CalPERS for California Report. This is the second production of this report that highlights some of the economic and ancillary benefits for all CalPERS investments in California. This report (Attachment 2) was developed and prepared by Pacific Community Ventures and CalPERS staff. This year's report has a different structure than in years past. In the past the report had two chapters: one chapter covering CalPERS investments in California across all asset classes and a detailed second chapter covering Private Equity's (PE) California Initiative. The California Initiative seeks to invest in portfolio companies

in traditionally underserved markets, primarily, but not exclusively, located in California. This year's streamlined **CalPERS for California** report tells the whole story of CalPERS investments in California including a summary of the results of PE's California Initiative.

For those that are interested in the complete detail and methodology measuring impact of PE's California Initiative, the **CalPERS for California** report includes a link to the full **California Initiative** report that can be found on the CalPERS website. Attachment 3 is the complete **California Initiative** report.

This year's **CalPERS for California** report is more comprehensive than in prior years. The report includes more case studies and for the first time includes jobs data from Real Estate and Infrastructure investments.

Key outcomes noted in the report are:

- Fiscal Year 2010-11 California investments totaled \$19.4 billion or 8.2% of the Total Fund.
- Nearly 1.4 million jobs have been supported or created as result of CalPERS investments in California.
- Compared to the prior reporting year, CalPERS dollars invested in California rose 13%.

2. Emerging Manager and Diversity & Inclusion Initiatives

CalPERS Five-Year Plan for Emerging Manager Participation. SB 294 (Price) was signed into law by Governor Brown in October 2011. This bill requires the Board of Administration of the Public Employees' Retirement System and the Teachers' Retirement System to each provide a five-year strategic plan for emerging investment manager participation across all asset classes. The bill requires each of the boards to submit an annual report to the Legislature, starting in 2014 through 2018, regarding the progress of the strategic plan. The bill requires the Boards to define "emerging investment manager" for purposes of these provisions.

Staff will bring the draft plan to the Investment Committee for review in August and final plan for approval in December 2012. A progress report on the CalPERS Five-Year Plan follows:

- Staff has engaged RG & Associates from the Diversity Spring Fed Pool to assist with development of the plan.
- The Investment Office has established a cross asset class team, set project milestones and defined "emerging managers" for the purposes of this effort.

- Elements of the CalPERS Five-Year Plan include:
 - Identify and document current emerging manager efforts
 - Establish, track and report cost, performance and diversity of existing emerging manager strategies
- The CalPERS Five-Year Plan may include the following work streams:
 - Evaluate increases in committed capital to emerging manager strategies
 - Establish conditions and criteria for transitioning an emerging manager to a direct relationship with CalPERS
 - Survey external investment managers for diversity in key competency positions
 - Establish appropriate research, outreach, and program information on CalPERS website

CalPERS Annual Diversity Report. The report is scheduled to be released in June 2012. The Investment Office section of the report titled “Investing in Diversity: The CalPERS Investment Office” highlights emerging manager and diversity investment initiatives across the Total Fund. Most notably the report documents that over the past two years, the Investment Office has committed close to \$1 billion to emerging manager strategies, including:

- A \$100 million increase to the Absolute Return Strategies fund of emerging hedge funds program in May 2010.
- A \$100 million increase to the Global Equity emerging manager fund of funds program in September 2010.
- A \$400 million increase to the Global Equity manager development program (Phase II) in June 2011.
- A \$200 million initial allocation for the Real Assets new real estate emerging manager program approved in August 2011.
- A \$100 million expected increase to the PE Program emerging domestic manager strategy during calendar 2012.

3. Real Assets Sustainability Initiatives

The Targeted Investment Programs Unit coordinates and reports on Sustainability Initiatives for the Real Assets Unit. The following items highlight efforts and provide information related to the Sustainability Initiatives.

- CalPERS and its Core real estate investment managers expect to become members of Greenprint by June 30, 2012.
 - As Greenprint members, managers will submit data for certain assets to establish a baseline carbon footprint for CalPERS Real Estate portfolio.

- Consistent with CalPERS release of ***Towards Sustainable Investment – Taking Responsibility*** report, two leading real estate investment managers have released their own sustainability reports.
 - Bentall Kennedy, *Leading Through Actions, Corporate Sustainability*³
 - Hines, *2011 Sustainability Report*⁴
- In January 2012, Laurie Weir was nominated to be the Co-Chair of the United Nations Environmental Programme (UNEP) Finance Initiative Property Working Group.
 - The Co-Chair position is a two-year leadership role on all UNEP work relating to property. The Co-Chair also serves on the UNEP Investment Committee, a new entity within the UNEP Finance Initiative.
- Current UNEP Finance Initiative Property Working Group work streams include:
 - *Unlocking the Energy Efficiency Retrofit Investment Opportunity: Available Public and Private Financing Mechanisms*
 - *Responsible Property Investment Best Practice*
 - *Environmental Metrics and the Property Measurement Process*

In conclusion, much has been accomplished in the five months since the inception of the Targeted Investment Programs Unit. However, there is significant work ahead to fully establish the successful foundation of the Program; complete and report on the Infrastructure Outreach Process; draft CalPERS Five-Year Plan for Emerging Manager Participation and initiate work streams included in the Plan; and prepare upcoming Responsible Contractor Annual Reports.

ATTACHMENTS

Attachment 1 – Targeted Investment Programs Semi-Annual Update Presentation

Attachment 2 – ***CalPERS for California Report***

Attachment 3 – ***California Initiative Report***

³ Web location: http://www.bentallkennedy.com/pdf/BentallKennedy_SustainabilityReport_2010.pdf

⁴ Web location: http://www.hines.com/about/sustainability/documents/HinesSR2011_WEB_Ltr.pdf

LAURIE WEIR
Senior Portfolio Manager
Targeted Investment Program

JANINE GUILLOT
Chief Operating Investment Officer